



COUNTY OF LOS ANGELES

FIRE DEPARTMENT

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P. MICHAEL FREEMAN
FIRE CHIEF
FORESTER & FIRE WARDEN

July 15, 2009

TO: EACH SUPERVISOR

FROM: P. MICHAEL FREEMAN

FIRE DISTRICT FINANCIAL PLAN

As we reported on April 2, 2009 in our Financial Issue Paper, the Fire District's primary source of funds, property tax, is being negatively impacted by the current economic downturn. The defeat of the State propositions has added to the uncertainty of the fiscal outlook and may further negatively impact the District. As advised in the Issue Paper, we are submitting the District's Financial Plan covering Fiscal Years 2009-10, 2010-11, and 2011-12.

In developing this Plan, we focused on meeting the following objectives:

1. Maintain the current level of emergency services including staffing of new fire stations now under construction.
2. Minimize the use of one-time funds that the District has saved over the years to fund needed capital projects, meet major infrastructure needs, and maintain a prudent reserve of 4% of expenditures.
3. Maintain the annual Special Tax levy at the lowest amount possible while meeting emergency service funding needs.
4. Intensify cost curtailments and program modifications to reduce the District's cost base.
5. Provide information to your Board and other stakeholders regarding the District's financial situation and plans to deal with projected funding shortfalls.

SERVING THE UNINCORPORATED AREAS OF LOS ANGELES COUNTY AND THE CITIES OF:

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AZUSA
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CALABASAS
CARSON
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ROSEMEAD
SAN DIMAS
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Even with the combined Fiscal Year 2008-09 and projected Fiscal Year 2009-10 expenditure freezes and curtailments of \$17.7 million, the Fire District is facing a three-year cumulative funding shortfall of approximately \$141.9 million. We plan to offset this shortfall, maintain emergency services, and meet objectives through a combination of the following actions:

- Utilize cost curtailments and program modifications to reduce the District's cost base;
- Increase the annual Special Tax levy as necessary, beginning in 2009-10 (with Board approval);
- Maximize other revenue sources;
- Use saved designated funds to the minimum extent necessary;
- Evaluate and if needed, recommend a voter approved increase in the existing Special Tax cap.

This Financial Plan relies upon the most recent projections of costs and revenues, but it is also based on assumptions that will likely change over time. "Trigger Points" that will generate plan modifications include the following:

- State borrowing of property tax under provisions of Proposition 1A, which could be a \$44 million one-time reduction in District revenue;
- Increases or decreases to our property tax revenue projections;
- Future increases in salary, employee benefits, and/or retirement costs;
- Other unanticipated cost increases or revenue decreases.

With the support of your Board, the voter-approved Special Tax has proven to be an effective way to weather financial difficulties over the years when the property tax declines. With that continued support, the District should be able to maintain emergency services by adhering to this Plan despite the economic downturn.

If you have any questions, please call me at (323) 881-2401.

PMF:at

Attachment

c: William T Fujioka, Chief Executive Officer
Vicky Santana
Randi Tahara
Joseph Charney
Rick Velasquez
Sussy Nemer

CONSOLIDATED FIRE PROTECTION DISTRICT OF LOS ANGELES COUNTY



FINANCIAL PLAN

July 15, 2009

FIRE DISTRICT FINANCIAL PLAN

July 15, 2009

Background

Effective public safety services such as fire suppression and emergency medical services require a stable source of funding. Most of the time, property tax, which is 62% of the Fire District's annual revenue, serves as this stable source. Yet, over the past 25 years, rare but extreme downturns in property tax revenues have caused close calls where emergency services levels were at risk.

When these downturns or other events have impacted the District's property tax, the Board of Supervisors and the public have acted responsibly to maintain emergency services. A Benefit Assessment was adopted in 1992, and when Proposition 218 invalidated it, the voters approved the Special Tax in 1997. The District has effectively managed its finances by controlling costs, and establishing savings of one-time funds for infrastructure needs, capital projects, and financial uncertainties.

Some of these one-time funds will provide funding to offset the projected shortfall in the near term, but increases in the Special Tax will be necessary to provide a stable, ongoing stream of revenue until the property tax rebounds.

Purpose of the Plan

This Financial Plan summarizes the financial outlook for the Fire District through 2011-12, and outlines our plans to deal with the projected funding shortfall. It will be a "road map" for the District, the Board of Supervisors, and the District's stakeholders to understand our financial situation and to anticipate actions necessary to maintain stable funding for emergency services.

District's Financial Outlook

Based on our projections, the District is facing a cumulative funding shortfall totaling \$141.9 million over the next three fiscal years as follows:

- 2009-10: \$16.3 million
- 2010-11: \$59.3 million
- 2011-12: \$66.3 million

The drop in property tax revenue, increasing costs of maintaining emergency service levels, and staffing new fire stations under construction, are the primary causes of the funding shortfall.

Plan to Offset Projected Shortfalls

The following summarizes our plans to offset projected shortfalls over the next three fiscal years:

2009-10: \$16.3 Million Projected Shortfall

1. With Board approval, increase the annual Special Tax levy for single-family residences with commensurate increases for other types of properties (exact amount will be determined as more information becomes available and Fiscal Year 2008-09 closes).
2. With Board approval, increase the District's allocation of Measure B funds to more fully fund District helicopter trauma transport costs in Los Angeles County.
3. Continue previous expenditure freezes and curtailments (see Attachment A) included in the Fiscal Forecast.
4. With Board approval, cancel designations and use some savings to fund emergency services. (If either Item #1 or #2 do not occur, additional designated savings will need Board approval to fund emergency services and balance the budget).

2010-11: \$59.3 Million Projected Shortfall

1. With Board approval, increase the annual 2010-11 Special Tax levy.
2. With Board authorization and voter approval at the June 2010 election, establish a "Supplemental Cap" to the Special Tax equal to twice the current cap for single-family residences with commensurate increases for other types of properties (see Attachment B).
3. Continue previous expenditure freezes and curtailments (see Attachment A) included in the Fiscal Forecast.
4. With Board approval, cancel designations and use savings as necessary to fund emergency services. (If either item #1 or #2 do not occur, additional savings would be used to fund emergency services, or major curtailments would be necessary).

(Note: It is recognized that use of designated savings is a stopgap measure at best, and would severely impact essential infrastructure and capital project needs, and could reduce District funds for financial uncertainties below the prudent 4% level).

2011-12: \$66.3 Million Projected Shortfall

1. With Board approval, continue the 2010-11 Special Tax levy with a 2% CPI increase.
2. With Board approval, increase the Supplemental Special Tax levy as needed to maintain emergency service levels.

Major Uncertainties that Could Impact the Plan

- State borrowing of property tax under provisions of Proposition 1A, which could be a \$44 million one-time reduction in District revenue.
- Increases or decreases to our property tax projections,
- Increases in salary, employee benefits, and/or retirement costs.
- Other unanticipated cost increases or revenue decreases.

Conclusion

This Financial Plan outlines proven actions which, if implemented on a timely basis, will maintain critical Fire District emergency services. While the financial shortfall is quantified in the Plan, specific corrective action amounts are not since numerous variables are still being evaluated.

Once more firm numbers are available, they will be incorporated into the Plan. Likewise, all recommended actions will be quantified and briefed in advance of requesting Board of Supervisor action and approvals.

Attachment A: Expenditure Freezes and Curtailments

The Fire District has already implemented several freezes and cost curtailments of \$7.85 million in 2008-09 and will increase curtailments to \$9.84 million in 2009-10. These savings are already reflected in the District's fiscal forecast.

Cost reductions in 2008-09 (\$7.85 million) include:

- Freezing of vacant non-sworn positions
- Freezing of all non-essential Services and Supplies
- Reducing non-essential travel/training
- Reducing the Contract Air Program budget
- Deferring the implementation of 4-person staffing

Cost reductions in 2009-10 (\$9.84 million) include:

- Continuing the freeze on vacant non-sworn positions
- Continuing the freeze on all non-essential Services and Supplies
- Continuing the reduction of non-essential travel/training
- Continuing the reduction of the Contract Air Program.
- Continuing the deferral of the 4-person staffing
- Reassigning of staff battalion chiefs to activate needed field battalion
- Reducing overtime related to special assignments
- Reducing overtime related to recruit training
- Downsizing of Department bureaus from seven to six
- Canceling the transfer to the Helicopter ACO fund to build reserves

Other means of generating cost savings will be aggressively pursued and implemented while still meeting our financial objectives.

Attachment B: Supplemental Cap to Special Tax

If necessary, the District will recommend that the Board of Supervisors and District voters approve a ballot measure to establish a "Supplemental Cap" to the Special Tax. This will provide the Board the authority to levy the Special Tax at a higher amount as necessary to offset the loss of property tax revenue.

The following provides background information and summarizes the proposed Supplemental Cap:

- In 1997, Measure E was approved by District voters and established a Special Tax to replace the District's benefit assessment that invalidated Proposition 218 in 1996.
- The Special Tax is a per-parcel-tax with an initial amount of \$48 annually for single-family residences and higher rates for commercial and other properties. It has a provision for a maximum annual CPI increase of 2% for the annual cap. Over the twelve years the Special Tax has been levied, it has been levied at its cap only once and has, in fact, been reduced when the property tax levels were sufficient to finance District operations.
- Special Tax revenue can only be used for firefighting and paramedic services and the annual levy is set each year by a 3/5 vote of the Board.
- The continuing fluctuation of property tax makes it necessary to raise the cap to maintain emergency services in future years. If necessary, the District will propose that a Supplemental Cap equal to twice the current cap be submitted to the voters as early as June 2010. This increased cap will provide the Board with the authority and flexibility to increase the actual levy as necessary to maintain emergency services.
- Should the voters reject the proposed Supplemental Cap, the existing provisions of the Special Tax, including the cap amount, would remain in effect.